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VICE PRESIDENT

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VICE PRESIDENT

R. C. HABERKERN
PURCHASING AGENT

R. J. Reynolds Tobacco Company

WINSTON-SALEM, N. C.

DIRECTORS

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TRAFFIC MANAGER

H. S. STOKES
SUPT. LEAF PROCESSING

P. FRANK HANES
COUNSEL

E. A. DARR
MGR. SALES DEPT.

RICHARD J. REYNOLDS
(ABSENT IN ARMED FORCES)

FRED S. HILL
TREASURER

January 18, 1945.

To the Stockholders of
R. J. REYNOLDS TOBACCO COMPANY:

There is enclosed herewith Financial Statement of your Company as at December 31, 1944.

Net earnings for the year 1944 amounted to $17,187,757.18, or $1.71 per share, compared with $18,562,741.15, or $1.85 per share for 1943, after provision for depreciation, taxes, all other charges and reserve for contingencies. In addition to earnings for the year, the Company is entitled to a credit for excess profits tax carry-back of $629,744.37, as shown in the Financial Report. No excess profits taxes were payable by the Company for the year 1944.

The five-year revolving or stand-by credit for $75,000,000.00, arranged in 1942, was rewritten in June 1944 with twelve of the Company's depositary banks for a period of five years to June 30, 1949, and increased to $100,000,000.00. Notes outstanding under the credit at the end of the year were $67,500,000.00, as shown in the Financial Statement. Current assets of the Company at December 31, 1944, were $238,254,130.92, with a net current asset position of $148,231,529.13.

Unit sales of CAMEL Cigarettes in 1944 were the largest in the Company's history. However, in view of the fact that a much larger proportion of the volume was sold this year to the Armed Forces for use overseas than in prior years, on which sales the Federal internal revenue tax of $3.50 per thousand did not apply, total sales expressed in dollars were not as large as in the preceding year. Except for an increase in ceiling prices on chewing tobacco, which became effective late in the year, ceiling prices on the Company's principal products, including CAMEL Cigarettes and PRINCE ALBERT Smoking Tobacco, remained in 1944 at the rates which have prevailed (excepting adjustments for increased internal revenue or stamp taxes) continuously since 1937. As compared to these ceiling prices on its manufactured products, the Company's principal raw material—leaf tobacco—was purchased in 1944 at costs in excess of those of any previous year other than for the crop year 1919. In accordance with long established accounting practice in this Company and in the tobacco industry generally, the purchases of these higher priced tobaccos were averaged in with tobaccos previously on hand, and cost of each grade thereof for inventory and accounting purposes is represented by the average cost of all tobaccos of that grade on hand from all crops reflected in the inventory.

There has been no final determination of renegotiation of sales to the United States Government in respect of prior years and it is believed no repayment on sales subject to renegotiation is indicated. Nevertheless, the reserve for contingencies includes an amount which, after taking into account applicable income tax adjustments, is thought adequate to cover this contingency.

The civilian demand for CAMEL Cigarettes has not been met throughout the year, due not only to the increasingly heavy requirements of the Armed Forces, but by reason of the limitations in recent years on production of leaf tobacco by growers, as well as limitations affecting the quantity of leaf tobacco permitted by the Federal Government to be purchased by this Company. Since CAMEL Cigarettes and other Company products can be made in their characteristically high quality only from tobaccos that have been held in storage long enough for proper aging, it has been impossible for the Company to meet in full the increasing demand for its product.

In view of existing conditions, the Company's expenditures for advertising and other promotional items were reduced during the year.

By way of making provision for the continuing expansion of Company business, the Directors, as recently reported in the press, are going forward with plans to obtain the necessary authorizations for and to issue $50,000,000.00 of Preferred Stock which, under appropriate procedures, would be offered pro rata to stockholders. The rate proposed for the new issue is 3¾% on par, though it is contemplated the stock will be offered at a premium above par, the exact amount of which is to be determined at a later date. It is planned that further announcements concerning this proposed issue of Preferred Stock will be made in due course to stockholders.

Jas. A. Gray,
President.